Rx: Health Care FYI #39

Subject: *Can Competition Lower Health Care Insurance Costs?*

From: *Rep. Tim Murphy (PA-18)*

The problem: Studies have found that increasing cost and limited health insurance choices among insurers can be barriers to families who want to purchase health insurance. Giving families more choices in health insurance policies can increase health care coverage and decrease costs.

The need for competition:

- Nearly 17 million people currently purchase insurance for themselves and their families in state-regulated individual insurance markets.[1]
- A study of 294 metropolitan areas found that in 95% of cities, a single insurer had at least 30% of the market and in roughly half of these metropolitan areas a single insurer dominates 50% or more of the market with several smaller insurers dividing up the rest.[2]
- Each state has its own regulations for health insurance coverage. There is a wide variety of additional mandated coverage which affects the policy price. Mandates established by state legislatures require insurance coverage for specific diseases.[3]

The cost of health insurance varies widely:

- A 25-year old male in good health could purchase a policy for $960 a year in Kentucky. That policy would cost about $5,880 in New Jersey.
- A similar policy available in Kansas for about $1,548 costs $5,172 in New York State.
- A policy priced at $1,692 in Iowa and $2,664 in Washington State would cost $4,032 in Massachusetts.
- The difference in premiums is mainly due to state regulations rather than variation in health care costs.[4]

---

[1] Herrick, Devin. How to Create a Competitive Insurance Market. National Center for Policy Analysis. June 15, 2006.
[2] Deem, Richard. Et. al. Competition in Health Insurance. A comprehensive study of U.S. Markets. 2005 Update. April 17, 2006.
[3] Herrick, Devin. How to Create a Competitive Insurance Market. National Center for Policy Analysis. June 15, 2006.
[4] Ibid.

Mandates increase costs:

- State mandates can increase the cost of a health care policy between 20 and 45 percent. Mandates have expanded to a total of 1,843 across the states including acupuncturists (in 11 states), massage therapists (4 states) and hair prosthesis (7 states),[5] raising the cost of the individual health insurance market.
- As mandates increase prices, the rate of the uninsured also increases. Sixteen states with 40 or more state mandates maintain an uninsured rate of 15.4 percent. In 19 states with 30-39 mandates, the average uninsured rate is 14.8 percent. While states with less than 30 mandates only maintain an average 13.1 percent uninsured.[6]

The federal government:

- The 1974 Employee Retirement Income Security Act (ERISA) exempts those employers who "self-insure" their health benefit plans from state regulation.
- Health care firms in each state are protected from interstate competition by the federal 1945 McCarran-Ferguson Act which grants states the right to regulate health plans within their borders.
- H.R. 2355, the Health Care Choice Act, which has passed the U.S. House Energy and Commerce Committee, would allow families to purchase individual insurance policies from other states thus giving families more choices for less cost.

Recommendations:

- Establish a trial program allowing consumers to purchase health insurance policies from other states to evaluate the impact of increased choices on family insurance coverage and price.
- Allow states to choose a limited amount of consumer protections to ensure that increased competition for the individual health insurance market will not destabilize the entire health insurance marketplace.

---

[5] Bunce, Victoria. Health Insurance Mandates in the States. Council for Affordable Health Insurance. 2006.
[6] Sven, Larson. The Health Care Choice Act. Center for Freedom and Prosperity. June 2006.